MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BAC2634 – FINANCIAL ACCOUNTING & REPORTING II

(All Section / Groups)

18 OCTOBER 2016
9.00 A.M. – 12.00 P.M
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages with 5 questions only.
2. Answer **ALL** questions in the answer booklet provided.

QUESTION 1

Part A

Explain how revenue should be recognized under MFRS118 *Revenue* in each of the following independent situations.

a) A coal mining company has a bill and hold agreement with a local power station. Under this arrangement, the mining company invoices the power station RM10 million a month in respect of 10,000 units of coal, which the power station collects from time to time, after giving two weeks' notice to the mining company. During the current month, the power station has only collected 8,000 units of coal.

(3 marks)

b) A company publishes a magazine and on 1 July sold annual subscriptions totalling RM200,000. The monies have been received and are non-refundable. The financial year-end of the company is 31 December.

(2 marks)

Part B

Maju Bhd has one outstanding construction contracts for the year ended 30 June 2016. The financial data of the contract is as follow:

	RM'000
Contract Revenue (original price)	25,000
Progress billings as at 30 June 2016	23,750
Cost incurred as at 30 June 2016:	
- Materials	8,000
- Labour	7,500
- Construction overheads	4,000
	19,500
Revenue, costs and profit recognised in income as at 30 June 2015:	
- Revenue	12,500
- Construction costs	10,500
- Profit	2,000
Estimated further costs to complete the contract	1,500

This contract provides for an incentive payment of RM 500,000 if the project is completed by 30 September 2016. Based on a survey work carried out recently, it is highly probable that the contract will be completed by September 2016.

Stage of completion is measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Continued....

Required:

Compute the revenue and cost that should be recognized for the financial year ended 30 June 2016 and show the gross amount due from / to customer in accordance with MFRS 111 *Construction Contracts*. (8 marks)

Part C

Prado Shoes Bhd is in the business of producing and selling fashion shoes. In 2016, Prado acquired a fashion shoe business for RM 25 million and the brand name was 'Shoe Master'. At the same time, Prado Shoes Bhd started developing it's own line of lady's fashion shoes called 'Prado Lady'

The expenditures incurred during the year up the 30 June 2016 is tabulated below:

Details	Type of Expenditure	RM
1 July 2015 – 31 July 2015	Research to determine market size	3,500,000
1 August 2015 – 30 September 2015	Testing various types of materials for the product	4,200,000
1 October 2015 – 31 December 2015	Prototyped the lady shoe based on the design	2,450,000
1 January 2016 – 29 February 2016	The design for the shoe was further enhanced and refined	1,500,000
1 March 2016 – 31 May 2016	Development work was carried out to finalize the design for the shoes	9,500,000
1 June 2016 – 30 June 2016	Final Production and launch of the product	15,000,000
		36,150,000

The cost of RM 15,000,000 incurred for the final production and launch of the product includes the cost of renovating the building and upgrading works for plant and machinery of RM7,700,000, staff training of RM 2,800,000 and market research and advertising cost of RM 4,500,000.

Required:

Discuss how the brand name and the expenditure of RM 36,150,000 should be treated under MFRS 138 *Intangible Assets*.

(7 marks)
(Total: 20 marks)
Continued...

QUESTION 2

Shown below are the final accounts of Mari Bhd for the last two financial years:

Statements of financial position as at 31 December

	2015		2014	
Assets	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Land and buildings	1,464		1,098	
Plant and machinery	520		194	
Motor vehicles	140	2,124	62	1,354
Current assets				
Inventory	504		330	
Trade receivables	264		132	
Government securities	40		-	
Bank	-	808	22	484
Total Assets		2,932		1,838
Equity and Liabilities				
Ordinary shares of RM0.50 each	900		800	
Share premium	120		70	
Revaluation reserve	360		-	
General reserve	100		50	
Retained earnings	378	1,858	258	1,178
Non-current liabilities				
9% debenture		432		350
Current liabilities				
Trade payables	266		220	
Taxation	120		50	
Proposed dividend	72		40	
Bank overdraft	184	642	-	310
Total equity and liabilities		2,932		1,838

Summarised statement of comprehensive income for the year ending 31 December

	2015	2014
	RM'000	RM'000
Operating profit	479	215
Interest paid	(52)	(30)
Profit before taxation	427	185
Tax	(149)	(65)
Profit after taxation	278	120

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Additional information:

1. The movement in non-current assets during the year ended 31 December 2015 was as follows:

	Land & building RM'000	Plant & machinery RM'000	Motor vehicles RM'000
Cost at 1 January 2015	3,309	470	231
Revaluation	360	-	-
Additions	81	470	163
Disposal	-	(60)	-
Cast at 31 December 2015	3,750	880	394
Accumulated depreciation at 1 January 2015	2,211	276	169
Disposal	-	(48)	-
Added for year	75	132	85
Accumulated depreciation at 31 December 2015	2,286	360	254

The plant and machinery disposed of during the year was sold for RM20,000.

2. During 2015, a right issue was made of one new ordinary share for every eight held at a price of RM0.75.

3. A dividend of RM36,000 (2014 RM30,000) was paid in 2015. A dividend of RM72,000 (2014 RM40,000) was proposed for 2015.

4. A transfer of RM50,000 was made to the general reserve.

Required:

Prepare a Statement of Cash Flows for the year ended 31 December 2015, in accordance with MFRS107 *Statement of Cash Flow* (20 marks)

(Total: 20 marks)

QUESTION 3

Part A

The table gives information about three assets that have been reviewed for impairment:

	1	2	3
	RM'000	RM'000	RM'000
Carrying amount	345	413	530
Fair value less costs to sell	60	240	164
Value in use	420	180	320

Continued...

What is the outcome of these three impairment reviews in accordance with MFRS 136 *Impairment of Assets*? (4 marks)

Part B

Given below are the statements of financial position of Horse Bhd and Zebra Bhd as 31 December 2015.

	Horse RM'000	Zebra RM'000
Investment in Zebra, at cost	250	-
Sundry Net Asset	600	325
	850	325
Liabilities	(50)	(25)
	800	300
Share Capital, RM2 per share	700	200
Retained Earnings	100	100
	800	300

Additional information

1. Horse acquired 75,000 of the ordinary share of Zebra on 31 December 2015 for RM250,000.

2. The fair value of one ordinary share of Zebra on 31 December 2015 is RM3.20. Horse measures non-controlling interest at its fair value.

Required:

Prepare the consolidated statement of financial position as at 31 December 2015. (6 marks)

Part C

The following issues have arisen during the preparation of Dyna's draft financial statements for the year ended 31 March 2016:

i. From 1 April 2016, the directors have decided to reclassify research and amortised development costs as administrative expenses rather than its previous classification as cost of sales. They believe that the previous treatment unfairly distorted the company's gross profit margin.

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ii. Dayna acquired a piece of equipment on 1 April 2014 (with a useful life of 10 years) for RM300,000. The depreciation is being calculated based on the straight line basis. However, due to mishandling of the equipment by inexperienced staff, the company decided to revise its useful life to 5 years on 1 April 2016. The directors are also considering to change the method of depreciation to the reducing balance method.

Required:

Advise, and quantify where possible, how the above items (i) and (ii) should be treated in Dyna's financial statements for the year ended 31 March 2016. (10 marks)

(Total: 20 marks)

QUESTION 4

Part A

On 1 October 2015, Doraxplorer commenced exploration and evaluation for oil from an undersea oilfield. In accordance with MFRS 6 *Exploration For and Evaluation of Mineral Recourses,* explain;

a) The initial measurement for all exploration and evaluation assets (2 marks)
b) The subsequent measurements (3 marks)

Part B

On 1 January 2013, Maju Construction Bhd constructed a new building. It was financed entirely by a loan of RM10 million from AB Bank at an interest rate of 9% per annum. The loan was specifically secured to finance the construction of the building. The new building will be used as an investment property.

Construction of the building commenced on 1 May 2013 and it was completed on 1 February 2015, but only ready for use as an investment property on 1 March 2015. The fair value of the building was RM15 million on 1 March 2015 and there was no significant change in the fair value as at 31 December 2015.

It is the policy of Maju Construction Bhd to capitalise borrowing costs incurred in accordance with MFRS 123 *Borrowing Costs.*

Required:

a) Based on the information in Maju Construction Bhd, explain the circumstances when borrowing costs can be capitalised in accordance with MFRS 123 *Borrowing Costs.* (3 marks)

Continued....

b) Calculate the total amount of borrowing costs that could be capitalised as part of the cost of the building. State the amount of finance cost that should be expensed to the statement of profit or loss for the year ended 31 December 2015.

(5 marks)

Part C

The accounting treatment of investment properties is prescribed by MFRS 140 *Investment Property*.

Required:

a) Define investment property under MFRS 140 and explain why its accounting treatment is different from that of owner-occupied property. (3 marks)

b) Explain how the treatment of an investment property carried under the fair value model differs from an owner-occupied property carried under the revaluation model. (4 marks)

(Total: 20 marks)

QUESTION 5

Star Bhd, a manufacturing company, has acquired and disposed some of its equipments. The details of the acquisition and disposal of the equipments and their related government grants for the year ended 31 December 2015 are as follows:

1. On 1 January 2013 the company purchased two equipments at a cost of RM1,600,000 each. Both equipment has an estimated life of 10 years with a residual value of RM100,000. The company uses the straight line method of depreciation.

   The company received government grants that amounted to 25% of their cost price at the time of purchase. The company is not required to pay for the grants if it retains the equipments for at least four years.

   If the company sells the equipments within the first, second or third year, it has to return 70%, 50% or 30% of the grants respectively. The company sold one of the equipments on 31 December 2015 for RM1,200,000.

Continued...

2. On 1 July 2015, a new equipment was acquired. The details of the costs are:

	RM
Basic list price	480,000
Other additional costs:	
Transportation and handling costs	5,000
Estimated pre-production testing	20,000
Service and maintenance contract for 4 years	40,000
Site preparation costs:	
Electrical cable installation	30,000
Set-up costs	5,500
Labour costs	7,500

The company was given a cash discount of 5% for early settlement. The equipment qualified for a government grant of 50% on its total costs. The equipment was depreciated on a straight line time apportionment basis for 4 years with no residual value.

It is the accounting policy of Star Bhd to treat government grant as deferred credit and release it to the statement of comprehensive income over the life of the equipment.

Required:

a) In relation to MFRS 120 *Accounting for Government Grants and Disclosure of Government Assistance*, prepare extracts of financial statements of Star Bhd for the year ended 31 December 2015 in respect of the equipments and the related grants.
(15 marks)

b) List the matters that should be disclosed in relation to government grants.
(5 marks)
(Total: 20 marks)

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